ANNUAL REPORT 2002

DENISON ENERGY INC.

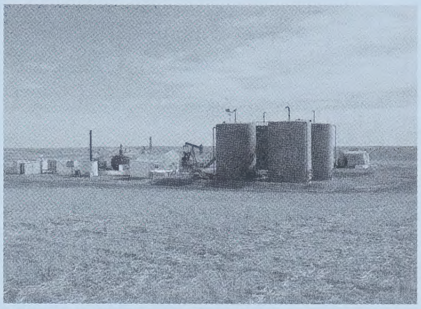
URANIUM OIL & GAS

to power the future

Annual Meeting
The annual meeting of shareholders will be held on Thursday, May 8, 2003, at 10:30 a.m. at the TSE Conference Centre, The Exchange Tower, Main Floor, 130 King Street West, Toronto, Ontario. All shareholders are encouraged to attend.

DENISON ENERGY INC.


Uranium


Oil and Gas


Environmental Services

Highlights

(in thousands, except per share data)		**2002**		2001
Financial Results				
Revenue	$	**37,966**	$	32,064
Net earnings		**3,068**		4,718
Net earnings per Common Share		**0.18**		0.30
Cash generated by (used in) operating activities		**11,053**		4,221
Capital expenditures		**9,499**		9,017
Financial Position				
Total assets	$	**170,400**	$	173,433
Shareholders' equity		**88,152**		80,442
Uranium (U_3O_8) Production (pounds)		**1,372**		1,484
Oil & Gas Production				
Crude oil and condensate (bbls)		**120**		35
Natural gas (mcf)		**516**		63

Unless otherwise indicated, all dollar amounts are stated in Canadian currency.
On December 31, 2002 the rate of exchange was US$1.00 equals CDN$1.5796.

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Directors' Report

In 2002, the McClean Lake uranium facility had another successful production year and the expansion of the Company's oil and gas operations continued. The challenges for 2003 are clear: eliminate the uncertainty regarding the licensing of the McClean Lake uranium facility; increase oil and gas production and earnings; better manage the risks associated with oil and gas exploration drilling; and improve investor relations and interest in Denison.

The significant events of 2002 include:

- increased revenue and cash flow from mining and oil and gas operations;
- completion of a $5 million flow through common share issue;
- debt reduction of $16.6 million on the Cogema loan after payment for December deliveries;
- completion and signing of the toll milling arrangement with the Cigar Lake joint venture;
- obtaining a stay of the Federal Court decision quashing the original McClean Lake license;
- encouraging exploration drilling at McClean Lake;
- successful appeal of the Greek lawsuit;
- consolidation of Denison's common shares on a 1 for 20 basis; and
- implementation of the Company's name change to Denison Energy Inc.

Earnings were $3.1 million or $0.18 per share for the year ended December 31, 2002 on revenue of almost $38.0 million. This compares with earnings of $4.7 million or $0.30 per share on revenue of $32.1 million in 2001. Earnings and revenue in 2001 included $1.5 million from the final payments on the Ecuador royalty. Net cash generated by operating activities increased to $11.1 million in 2002 from $4.2 million in 2001.

Uranium production in 2002 at the McClean Lake mill was almost 6.1 million pounds. In spite of the planned reduction in head grade at the mill by over 26%, resulting in an increase of 25% in the tonnes milled, unit milling costs per tonne were reduced by almost 23%. The production costs per pound of U_3O_8 was only 4% higher than in 2001 even with the head grade reduction and over 7.5% fewer pounds produced. The Cogema loan was reduced by $8.8 million during the year and by a further $7.8 million after payment for December uranium deliveries.

In 2002, uranium exploration drilling at McClean Lake, in an area referred to as Caribou Lake, was quite encouraging with several uranium mineralization intersections discovered. As a result, an 11,000 metre-drilling program commenced in early 2003.

The decision of the Federal Court of Canada on September 24, 2002, quashing the original operating license for McClean Lake created some uncertainty concerning the McClean Lake operations. With the Federal Court of Appeal ordering a stay of the September 24th decision, the continued operations at McClean were ensured pending the outcome of the appeal of that decision. The McClean facilities have continued to operate, meeting or exceeding all regulatory requirements for the health and safety of the workforce and the environment. The date for a hearing of an appeal cannot be predicted but will not occur before September 2003. Efforts are continuing to otherwise remove any uncertainty about the valid status of the current operating license by the completion of further regulatory requirements or by legislative change.

Uranium markets improved slightly during 2002 with the spot price of uranium increasing from US$9.60 in December 2001 to US$10.20 by year end. We would expect to see some moderate strengthening of uranium markets during the year with more significant price increases in 2004.

In 2002, progress was made in the acquisition and development of oil and gas assets in western Canada. However, the drilling success rate of 57% is not satisfactory. Furthermore, one existing and five new successful gas wells drilled in the fourth quarter were waiting, at year end, on access to pipeline facilities, which has been restricted because of insufficient capacity created by the success of others in the

same areas. One of these wells has now commenced production at restricted rates with at least two more scheduled to commence production by April 1st. The remaining gas wells are expected to commence limited production before the end of April this year. Gas production levels will gradually increase as capacity is created. We also participated in the drilling of three successful oil wells in 2002.

Oil and gas production increased from an average of 123 barrels of oil equivalent per day in 2001 to 566 in 2002. At the end of the year production was 648 barrels of oil equivalent per day with an additional 350 barrels of oil equivalent of gas shut in.

During the last half of the year additions to the oil and gas management team were made and, early this year, we implemented further changes with new managers responsible for exploration and production operations.

In 2002, the Environmental Services division completed its first full year of contracts with Rio Algom and the government of Newfoundland and Labrador. Denison Environmental Services' work in 2003 will also involve several projects for the government of Ontario and other clients.

In 2003, we will continue our efforts to expand production of our oil and gas division by the tie-in of our existing gas wells and by further drilling. The current oil and gas price environment makes it difficult to acquire producing assets at a reasonable price but current prices are having a positive impact upon our oil and gas revenue, cash flow and earnings.

We have a solid base of producing assets. Our commitment to growing and strengthening our oil and gas operations has never been stronger. We are continuing our efforts to increase revenue, cash flow and earnings from all our operations and improve upon the performance of the Denison common shares.

On behalf of the Board of Directors,

E. Peter Farmer
President and Chief Executive Officer
Toronto, Ontario
March 13, 2003

Review of Operations

Overview

Expansion of our oil and gas activities, continuing improvements in uranium operations and significant uranium exploration programs highlighted Denison's 2002 activities.

The 22.5% owned McClean Lake uranium facility has generated increased revenue, earnings and cash flow while improving all operating parameters. Steps are continuing to move the 19.96% owned Midwest deposit and the various McClean deposits toward the goal of supplying the McClean Lake mill with ore beginning in 2006.

Uranium exploration has continued at Wheeler River and Waterfound and at McClean, where new uranium mineralization was discovered near Caribou Lake.

Oil and gas reserves and production have increased through a combination of acquisitions and exploratory drilling utilizing the proceeds of the $5 million flow-through share issue completed in July 2002. Several successful gas wells drilled during the year remained shut-in at year end due to insufficient gas pipeline capacity.

Denison Environmental Services continued its role in the monitoring of the Company's two closed-out mines at Elliot Lake, in addition to performing mine decommissioning, monitoring and construction management under various contracts with industry and government.

In September 2002, a judge of the Federal Court of Canada, Trial Division, quashed the original operating license for the McClean uranium facility. This decision was immediately appealed by the Canadian Nuclear Safety Commission and by Cogema Resources Inc., the operator of the McClean facility. A stay of the decision was granted in November 2002 pending the results of the appeal. The original court decision was not critical of the performance of the McClean facility, but was based on a technical question about the administration of the licensing process. Operations are continuing under the new five-year operating license issued in August 2001. Removing the uncertainty created by the September 2002 decision is a priority.

McClean Production Facility

Uranium Operations

McClean Lake

The McClean Lake uranium facility continues to meet or exceed all operational, environmental, safety and health targets and further improvements are expected in 2003.

In 2002, production totaled 6.1 million pounds of uranium, exceeding scheduled production of 6.0 million pounds. Production in 2001 was 6.6 million pounds, resulting in the creation of a strategic inventory in excess of that required to meet our long-term sales commitments. Production in 2003 is scheduled to be 6.0 million pounds.

Interior of McClean Mill

Since the startup of the facility in 1999, the grade of the mill feed has been steadily reduced to equal the average grade of the stockpiled ore, resulting in a significant increase in the tonnage milled. In spite of this, unit operating costs have steadily declined without negatively impacting the excellent environmental, health and safety records. The following table compares the operations over the last three years:

	2002	2001	2000
Ore Milled (000 tonnes)	122	98	82
Average Grade (% U_3O_8)	2.29	3.10	3.42
Production (000 lbs. U_3O_8)	6,098	6,595	6,015

Mining of the Sue C ore body was completed in February 2002, highlighted by the recovery of 33% more uranium than was originally calculated from the surface drilling before mining commenced. As a result, sufficient ore has been stockpiled to supply the McClean Lake mill at nominal rates well into 2006. While mining operations are suspended for the next two years, the Company's $14.5 million inventory of stockpiled ore will result in improved cash flow as this ore is fed to the mill without any additional mining or other cash costs.

The low-grade special waste from the mining of the JEB and Sue C deposits has been disposed of in the mined out Sue C pit. The pit is now being allowed to flood naturally. Agreement has been reached with the Cigar Lake joint venture to allow them to dispose of their waste rock in the Sue pit at a later date, subject to receipt of the necessary regulatory approvals. The costs of dewatering the Sue C pit and handling and disposing of the Cigar Lake wastes will be paid by the Cigar Lake joint venture.

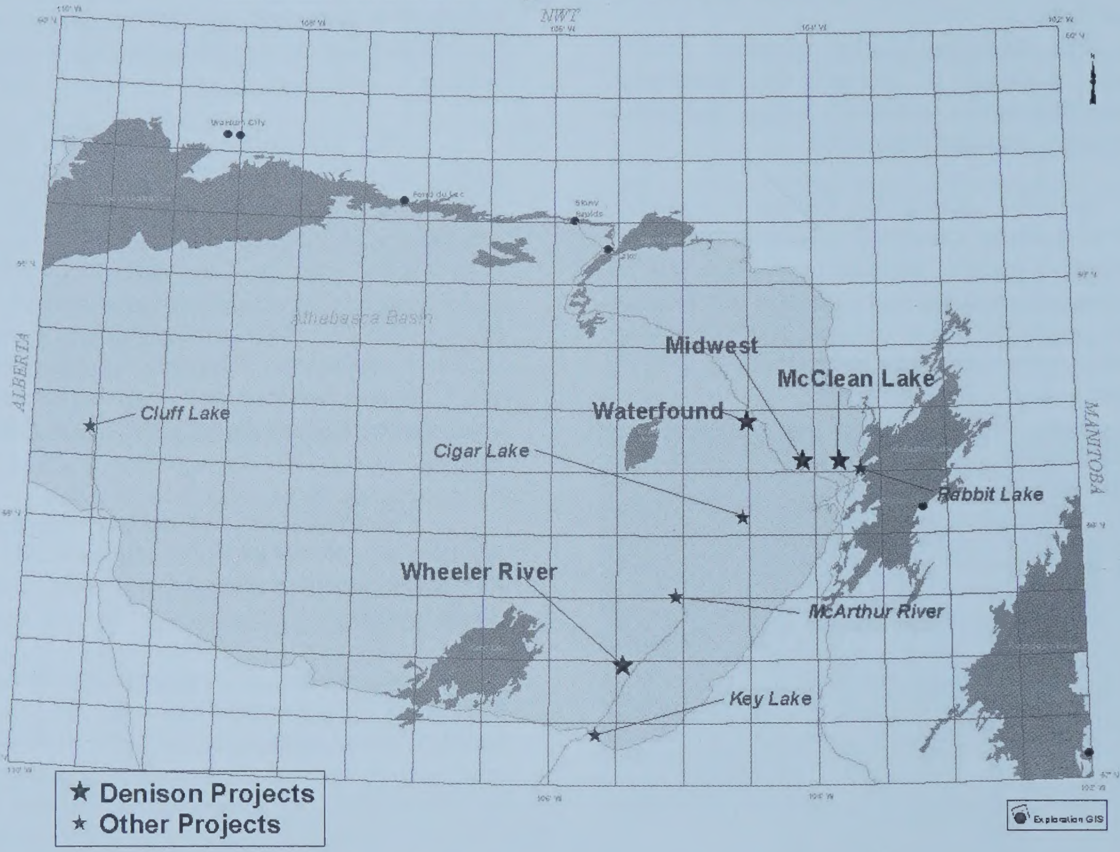
The McClean Lake operation continues to maintain its internationally recognized ISO 14001 Environmental Management Certification originally granted in 2000.

Negotiations were concluded with the Cigar Lake joint venture and definitive agreements signed for Cigar Lake to process its ore at the McClean Lake mill. All Cigar Lake ore will be leached at the McClean Lake mill following which the pregnant aqueous solution is to be divided between the McClean Lake and Rabbit Lake facilities for processing into uranium concentrates.

This toll milling agreement will provide significant economic benefits to the McClean Lake operations including the receipt of a toll milling fee, reduced unit operating costs due to economies of scale and the extension of the useful life of the facilities for many years resulting in the corresponding deferral of the reclamation and decommissioning costs. All costs of the expansion and modification of the McClean mill to process the Cigar Lake ore will be paid by the Cigar Lake joint venture.

The toll processing of the Cigar Lake ore is conditional on the receipt of the necessary regulatory approvals. The Cigar Lake partners are expected to make a decision on when to proceed with mine development after receipt of the regulatory approval of the construction license which is not expected before October 2003. Processing of Cigar Lake ore could begin as early as late 2005.

Denison Uranium Projects in the Athabasca Basin



Midwest

The Midwest uranium deposit is located about 20 kilometres from the McClean Lake facility. Ore from this deposit, which is expected to be mined by open pit, is planned to be milled at the McClean Lake mill.

Work on the optimizing of the pit layout and preliminary engineering of the surface facilities is continuing.

Other McClean Lake Ore Bodies

No firm decision has been made as yet on the sequence of mining the Sue A, B and E deposits, the McClean underground and the Midwest ore reserves. The results of exploration at Caribou Lake will also affect the decisions concerning the timing and sequence for exploiting these deposits. An agreement must be reached with an adjacent leaseholder to permit the reserves of Sue E, situate on both properties, to be mined together.

Applications are being prepared to obtain the required regulatory approvals in time to ensure that ore is available to feed the McClean Lake facilities after the existing ore stockpile has been milled in 2006.

Oil and Gas

Canada

Denison continued the expansion in 2002 of its oil and gas activities. Production for the year of 206,000 boe was 458% higher than 2001 and was about 58% oil. Reserves increased 13% to 1.97 million boe and exit production of about 650 boepd was 44% higher than in December 2001. This growth was obtained through drilling and by selective acquisitions.

Growth by acquisition has always been part of our corporate strategy, however, the current high commodity price environment has fueled extremely

high seller expectations limiting the opportunities available at an acceptable price. We were successful in September 2002, however, in acquiring a majority working interest in the Skiff producing oil property located in southeastern Alberta. Denison is now the operator. Efforts are now underway to reinstate the water flood program, which had been operated successfully for several years before being suspended in 2000. We expect that these efforts will appreciably increase the reserves and the production rate in this field. There is also potential on these lands for the development of shallow gas production. We have continued to acquire additional working interests in this new core area.

The Countess area is Denison's principal area of operation where production originates from both the Ostracod and Basal Quartz formations at about 1300 metres depth. Production from this field is currently about 400 boepd. The Company drilled three wells at Countess during 2002. One of these wells was completed and is in production as an oil well, one well was abandoned and the third well is currently being converted to a water disposal well to enable us to dispose of all of our produced water at the site, thus reducing our operating costs. The resulting water flood should also increase the recoverable reserves.


Countess Battery

Overall, Denison's drilling activities were centered primarily in two geographic areas: southern Alberta, where wells were drilled to depths of 1300 metres; and central Alberta, where drilling depths were approximately 2600 metres. In total, the Company drilled 14 gross (11.2 net) wells in 2002 including 9 gross (7.1 net) wells in the fourth quarter.

The table below sets out Denison's drilling activity during the last two years:

	2002		2001	
	Gross	**Net**	Gross	Net
Oil	**3.0**	**2.0**	5.0	3.5
Gas	**5.0**	**4.4**	1.0	1.0
Dry and abandoned	**6.0**	**4.8**	2.0	1.5
Total	**14.0**	**11.2**	8.0	6.0
Success ratio (%)	**57%**		75%	
Avg. working interest %	**80%**		75%	

Our first Knappen well, which had produced about 215 boepd in the second quarter of 2002, was suspended in the middle of the year due to high water production. A second well was drilled in the fourth quarter to evaluate several zones in this gas field identified by a recent seismic survey, and was completed at a depth of 850 metres as a Mississippian gas well. Denison also participated in another gas well at Knappen, in which it holds a 38.5% interest. That well has been tested at a rate of 4.5 mmcf per day from two zones without apparent depletion over a two-hour test.

Two other 100% owned gas wells were drilled and completed in the adjacent Aden area.

Insufficient pipeline capacity in the Knappen and Aden areas has delayed these wells from being put into production. Some limited production began after year end and efforts are continuing to obtain additional pipeline capacity to permit all of our gas wells to be operated at optimum rates. From testing results, it is estimated that we had about 285 boepd of gas production in these areas, shut in awaiting pipeline capacity at year end.

A new oil discovery, in which Denison holds a 100% working interest, was made at Lubicon, northwest of Edmonton and placed on production in December at a rate of 100 boepd. This well is being connected to another party's facilities by pipeline.

Denison also drilled a successful gas well at Bow Island in southeastern Alberta. This 100% owned well on one section of land has been shut in pending the obtaining of pipeline capacity.

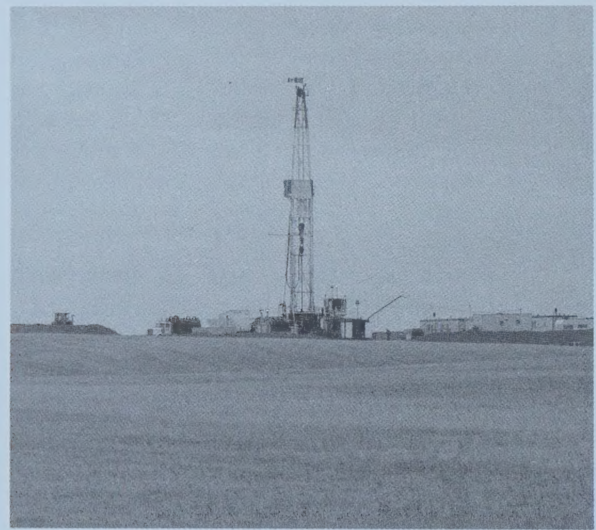
Denison's share of gross reserves as of January 1, 2003, as reported by Martin & Brusset Associates, totaled 1.97 million boe with a reserve life index of 8.2 years on proven reserves. Reserves

are about equally divided between oil and gas, however, production currently is about 70% oil due to the shut-in gas production capacity.

The table below details Denison's gross reserves as of January 1, 2003:

Denison's Gross Reserves

	Oil (mbbl)	Gas (bcf)	Total (mboe)
Proven producing	906	2.11	1,257
Proven non-producing	0	2.87	479
Total proven	906	4.98	1,736
Probable additional	167	0.38	230
Total proven and probable	1,073	5.36	1,966
Proven reserve life index, years	6.5	11.4	8.2



Exploration Drilling - Southern Alberta

Capital expenditures on oil and gas incurred during 2002 consisted of $1.4 million on acquisitions and $7.4 million on drilling and facilities.

Greece

Denison continues to hold its 75% working interest in the large exploration area near the city of Kavala in northern Greece, including 98,487 hectares east of Thassos Island where territorial disputes between Greece and Turkey have prevented exploration efforts since the late 1980s. Recent talks between Greece and Turkey, as a prelude to Turkey's entrance into the EU, may lead to a resolution of this long-standing dispute, however, it is not possible to determine when exploration will be permitted to resume. Prior to the force majeure suspension of exploration, an 885-kilometre, 2D seismic program identified a number of large highly prospective targets.

Denison has been successful in its appeal of the lower court judgment that had awarded 227 former Greek employees compensation beyond the severance which had been paid to them when they were terminated in late 1998. The Greek Court of Appeal unanimously rejected the lower court's decision and set aside the judgment against Denison.

Denison Environmental Services

Denison Environmental Services ("DES") continued to market to industry and governments the expertise and reputation gained from the decommissioning and reclamation of Denison's uranium mine sites at Elliot Lake, where mining ceased in 1992.

The primary activities of DES in 2002 were providing the ongoing monitoring of Denison's two closed mine sites, environmental monitoring, effluent treatment and maintenance services for Rio Algom's five closed Elliot Lake mines under a 5-year contract and providing project management services for the decommissioning and rehabilitation of the Hope Brook mine site in Newfoundland. DES has also been successful in obtaining several smaller contracts during the year.

DES has maintained its internationally recognized ISO 9001:2000 certification and 2002 was the third consecutive year without a lost time accident.

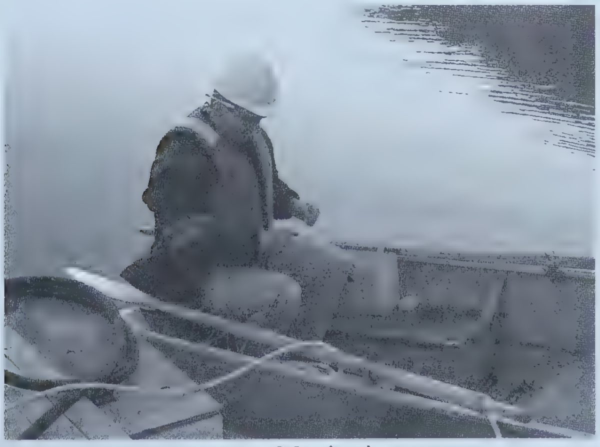
Decommissioning - Hope Brook

Elliot Lake Monitoring

By 1998 all significant capital reclamation activities at the Company's two closed out Elliot Lake mines had been completed and, for the most part, decommissioning had progressed to the long-term monitoring phase.

During 2002, the treatment plants operated as planned and all environmental targets were met. Monitoring expenditures were \$0.4 million, a drop of \$0.2 million from 2001. Monitoring costs are expected to be further reduced in 2003 and 2004 and to continue to decline marginally thereafter. All expenditures are funded from the reclamation trust. Sufficient funds are in the reclamation trust to meet all monitoring costs through 2008.

The regulatory agency, Canadian Nuclear Safety Commission, and the Elliot Lake Review Group of provincial and federal regulators reviewed the results of the monitoring program to date and, as a result of these reviews, ongoing sampling and analytical requirements will be significantly reduced.


Water Monitoring

Denison continues to be in full compliance with its licensing and environmental requirements.

Mineral Exploration Activities

McClean Project

Attention in 2002 was focused on drilling in the west extension of the Sue trend. Favourable geochemical alteration was intersected in the previously untested Caribou Lake area, within 3 kilometres of the Sue C open pit. Further drilling resulted in the discovery of uranium mineralization in the sandstones and at the unconformity with the basement rocks. Following this discovery, airborne and ground geophysics and very extensive PIMA programs were undertaken. Drilling continues to delineate the discovery and explore for adjacent pods.


Cogema Geologist Robert Campbell
Logging the Caribou Discovery Hole

Economic mineralization at the McClean Lake property does not occur in isolated pods. Rather, the mineralization occurs in clusters, or is otherwise grouped together. The existing deposits in the Sue trend were located approximately equidistantly along a linear trend. Similarly, the McClean underground deposit is a collection of individual pods arranged in linear fashion. The Caribou Lake discovery is the first step in a very intensive exploration program to be carried out over the next few years in this favourable area.

Wheeler River

Denison holds a 40% interest in the Wheeler River joint venture operated by Cameco. This 18,000-hectare property contains 152 line kilometres of graphitic conductors in 14 zones. During 2002, property wide gradiometer and various ground geophysical surveys were conducted and four holes were drilled to the unconformity.

Late in 2002, a strategic shift in exploration philosophy was made to identify large alteration halos as indicative of buried mineralization rather than targeting the smaller mineralized zones themselves. A test-drilling program was carried out late in the year using reverse circulation drilling to sample the top few metres of the sandstone cover.

Reverse Circulation Drilling - Wheeler

Waterfound River

Denison holds a 14.7% participating interest in the 11,722-hectare Waterfound project operated by Cogema. Detailed ground geophysics was carried out over the southern conductive system in 2002.

Talbot Lake

In 2002, the Company optioned its 100% owned gold prospect to Landore Resources Inc. Landore can earn a 51% interest in the property by spending $0.75 million on exploration before September 2004 and would then have, if Denison elects not to participate, a further option to increase its interest to 80% by spending an additional $0.75 million before March 2006. Landore carried out mapping and prospecting programs in the fall of 2002.

Marketing

Demand for uranium is generally inelastic and predictable, which is quite different from oil and gas demand which fluctuates widely with changes in global economics, climate patterns, wars and unrest in petroleum producing areas of the world.

The development of a primary supply of uranium involves expensive and risky exploration and lengthy development time. Suppliers will not commit to exploration and development without sustained, long-term prices that will provide a reasonable return on the necessary investment commensurate with the risk.

Denison's Marketing Arrangements

Denison's uranium is marketed under long-term contracts to nuclear power plant owners through a marketing company jointly owned with Cogema.

The 11 contracts in place with nuclear utilities in the Far East and the United States cover approximately all of Denison's production at nominal rates for 2003 and 2004 and a significant part of the production to 2010. The marketing company will enter into additional long-term contracts as required, taking advantage of improving prices and a tightening supply/demand balance.

Even though Denison does not sell on the spot market, about 16% of the sales from its long-term contracts are affected by changes in the spot price. A US$1.00 per pound change in the spot price would affect Denison's revenue and earnings by about $0.4 million.

Denison's oil production is sold at a price based on the posted price for Edmonton Light crude after adjustments for quality and transportation. The Edmonton Light price generally follows the trends in WTI, an internationally recognized reference price. Gas is generally priced in relation to the AECO posted price for Alberta gas with adjustments for handling and transportation.

Oil Production - Alberta

The market for oil is worldwide with prices everywhere following the same trends adjusted for relative transportation costs. Canadian gas, on the other hand, supplies the North American market and is therefore affected by economic and climatic conditions in North America.

Uranium Markets

Nuclear power generation worldwide continues to grow. Public opinion in many countries is now shifting strongly in support of nuclear power. Operating improvements in nuclear reactors, rising gas prices, and Kyoto related costs have made nuclear power one of the lowest cost options in many parts of the world.

At the end of 2002, there were 441 nuclear reactors with a generating capacity of 358 GWe operating in 31 countries. Over 16% of the world's fast-growing electricity demand is met by nuclear.

Twenty-eight more reactors are under construction, principally in the Far East and the former Soviet Union. Six reactors in Canada, that are currently shut down, are expected to restart in 2003/2004. A further 29 reactors are planned for which approvals and funding are already in place.

Uprates in the capacity of existing reactors are continually being approved in the U.S. and throughout the world. Twenty-year operating license extensions are also being approved in various countries.

The increased emphasis on reducing greenhouse gases pursuant to the Kyoto Accord and concern for the damage caused by acid rain are drawing increased interest in nuclear power generation which produces neither greenhouse gases nor acid rain. A number of countries have formally recognized that the nuclear option is necessary if they are going to meet their Kyoto targets. Globally, nuclear power avoids 2.4 billion tonnes per year of CO_2 which would be produced if the same amount of electricity were produced from coal.

In 2002, uranium demand to fuel operating reactors was nearly 170 million pounds of U_3O_8. This demand is expected to grow by between 1% and 2% per year over the next decade.

World mine production of uranium in 2002 was about 91 million pounds of U_3O_8, about 53% of world uranium demand. Mines in Canada and Australia produced about 53% of the total supply. Beneficial ownership of uranium production by the four largest companies was over 60% of total mine production with Cameco and Cogema alone accounting for over 40%. The McClean Lake operation is one of the five largest producing uranium facilities in the world.

Secondary sources of supply have been necessary to fill the gap between demand and primary production over the past several years. The reduced availability of some of the secondary sources will tighten the supply/demand balance and lead to increasing uranium prices.

The reprocessing of spent fuel can be expected to supply about 6% of the demand. Reprocessing capacity expansion would require substantially higher uranium prices to be justified.

The conversion of Highly Enriched Uranium ("HEU") from the Russian weapons program is now being marketed in an orderly manner by Cameco, Cogema and Nukem, removing the uncertainty in how and when it would be sold. This material represents the equivalent of one large mine and its availability is essential for meeting worldwide uranium demand.

Uranium supply and demand has been kept in balance for several years by the drawdown of excess utility and producer uranium inventories, including Russian commercial inventories. The level of these inventories has been reduced significantly. Inventories cannot continue to meet the gap in the supply/demand balance beyond the short term.

New mines are required to meet the medium and long-term market demands. Apart from the scheduled Cigar Lake start up, no new large mine is being proposed for development. Uranium prices will need to rise substantially above current spot prices to justify the extensive investment of time and money necessary to meet the anticipated future demand.

Spot market sales represented only about 11% of uranium demand in 2002 which is in line with the level in recent years. Spot prices have increased steadily from US$7.10 in December 31, 2000 to US$9.60 at the end of 2001 and US$10.20 at December 31, 2002. Spot prices are expected to

continue their upward trend as excess inventories are drawn down and the supply/demand balance tightens.

Oil and Gas Markets

War fears and production interruptions in Venezuela have driven the world oil market since mid 2002, far overriding the influence of the slowly recovering economies. Oil prices have reached levels not seen for many years and are flirting with record highs.

The political problems in Venezuela are far from over and the timing of restoration of production is far from certain. The fear of a spillover effect from the war with Iraq affecting other producing countries in the Middle East is an important factor in the current oil market.

Oil prices in the high US$30s are not sustainable and are expected to drop back into the high US$20s.

Gas prices gradually improved through 2002 and have once again been at or above the high levels seen in 2000. The very cold winter in North America has reduced gas storage levels significantly, and the discovery of new gas reserves in North America is not keeping pace with consumption. The lack of pipeline capacity to move gas to market is also a contributing factor.

Environmental, Health and Safety Policy

Denison recognizes the need for environmentally responsible management and is committed to the idea of sustainable development which requires balancing prudent stewardship in the protection of human health and the natural environment with quality management in the conduct of its business.

Diligent application of technically proven and economically feasible environmental protection and health and safety measures will be exercised at every stage of its operations. Denison is committed to complying at all times with environmental and health and safety laws and to maintaining high standards of environmental protection and health and safety in all of its business activities.

Consolidated Financial Statements

Denison Energy Inc.
For the years ended December 31, 2002 and 2001

Responsibility for Financial Reporting

To the Shareholders of Denison Energy Inc.

The Company's management is responsible for the integrity and fairness of presentation of these consolidated financial statements and all information in the Annual Report. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles for review by the Audit Committee and approval by the Board of Directors.

The preparation of financial statements requires the selection of appropriate Canadian generally accepted accounting principles and the use of estimates and judgments by management to present fairly and consistently the consolidated financial position of the Company. Estimates are necessary when transactions affecting the current period cannot be finalized with certainty until future information becomes available. In making certain material estimates, the Company's management has relied on the judgment of independent specialists. The Company's management is also responsible for maintaining systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide assurance that the financial information is accurate and reliable in all material respects and that the Company's assets are appropriately accounted for and adequately safeguarded. The Company's management believes that such systems are operating effectively and has relied on these systems of internal control in preparing these financial statements.

PricewaterhouseCoopers LLP, Chartered Accountants, are independent external auditors appointed by the shareholders to issue a report regarding the consolidated financial statements of the Company. PricewaterhouseCoopers' audit report outlines the extent and nature of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee, which is appointed annually and consists of four Directors, none of whom are members of management.

The Audit Committee meets at least four times per year with management, together with the independent auditors, to satisfy itself that management and the independent auditors are each properly discharging their responsibilities. The independent external auditors have full access to the Audit Committee with and without management present. The Committee, among other things, reviews matters related to the quality of internal control, audit and financial reporting issues. The Audit Committee reviews the consolidated financial statements and the independent auditors' report, as well as any public disclosure document that contains financial information, and reports its findings to the Board of Directors, prior to the Board approving such information for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the Company's independent auditors.

E. Peter Farmer
President and Chief Executive Officer

T. E. Craig Bamford
Vice-President Finance and Chief Financial Officer

March 13, 2003

Auditors' Report

To The Shareholders of Denison Energy Inc.

We have audited the consolidated balance sheets of Denison Energy Inc. as at December 31, 2002 and December 31, 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and December 31, 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Toronto, Canada
February 28, 2003

Consolidated Balance Sheets

Denison Energy Inc.
As at December 31, 2002 and 2001

(in thousands)		2002		2001
ASSETS				
Current Assets				
Cash and cash equivalents	$	**988**	$	2,177
Accounts receivable		**13,084**		13,651
Inventories and prepaid expenses *(note 2)*		**15,115**		14,214
		29,187		30,042
Inventory of ore in stockpiles *(note 2)*		**9,689**		13,413
Property, plant and equipment *(note 3)*		**131,524**		129,978
	$	**170,400**	$	173,433
LIABILITIES				
Current Liabilities				
Bank indebtedness *(note 4)*	$	**3,790**	$	1,918
Accounts payable and accrued liabilities		**7,227**		9,243
Current portion of long-term debt *(note 5)*		**10,712**		11,961
		21,729		23,122
Long-term debt *(note 5)*		**43,558**		51,700
Provision for post-employment benefits *(note 6)*		**10,063**		10,476
Provision for decommissioning and site restoration *(note 7)*		**6,598**		6,710
Future income taxes *(note 8)*		**300**		983
		82,248		92,991
SHAREHOLDERS' EQUITY *(note 9)*		**88,152**		80,442
	$	**170,400**	$	173,433

Contingent liabilities and commitments *(note 11)*
The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board

E. Bruce McConkey, Director

E. Peter Farmer, Director

Consolidated Statements of Earnings

Denison Energy Inc.
For the years ended December 31, 2002 and 2001

(in thousands except per share data)		**2002**		2001
Revenue	$	**37,966**	$	32,064
Operating and exploration costs		**25,844**		20,708
Royalties and provincial capital taxes		**3,793**		2,071
Interest expense *(note 5)*		**3,239**		4,448
General corporate expenses		**2,283**		2,005
Investment income		**(122)**		(382)
		35,037		28,850
Earnings before income taxes		**2,929**		3,214
Income tax recovery *(note 8)*		**(139)**		(1,504)
Net earnings for the year	$	**3,068**	$	4,718
Net earnings per Common Share - Basic (note 9(e))	$	**0.18**	$	0.30
- Diluted (note 9(e))	$	**0.18**		0.29

Consolidated Statements of Retained Earnings

(in thousands)		**2002**		2001
Retained earnings - beginning of the year	$	**78,579**	$	73,861
Net earnings for the year		**3,068**		4,718
Retained earnings - end of the year	$	**81,647**	$	78,579

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Denison Energy Inc.
For the years ended December 31, 2002 and 2001

(in thousands)	2002	2001
Operating Activities		
Net earnings for the year	$ 3,068	$ 4,718
Items not affecting cash:		
Depletion, amortization and reclamation	7,764	6,862
Drawdown of ore from stockpiles	4,912	5,863
Loss on sale or write-down of assets	563	514
Decrease in future income taxes	(683)	(1,790)
Stock option costs expensed (*note 9(d)*)	9	—
Decrease in operating working capital *(note 10)*	(3,846)	(11,208)
Funding of post employment benefits	(455)	(482)
Funding of Elliot Lake Reclamation Trust Fund	(279)	(256)
Net cash generated by operating activities	11,053	4,221
Financing Activities		
Increase (decrease) in bank indebtedness	1,872	(367)
Additions to long-term debt	19,691	26,474
Repayments of long-term debt	(29,082)	(25,521)
Issue of Common Shares net of issue costs of $355	4,645	—
Purchase of fractional Common Shares for cancellation	(12)	—
	(2,886)	586
Investing Activities		
Additions to property, plant and equipment	(9,499)	(9,017)
Proceeds on sale of assets	143	62
Sale of marketable securities	—	2,678
Acquisition of Innovative Energy Ltd. *(note 12)*	—	(1,916)
	(9,356)	(8,193)
Decrease in Cash and Cash Equivalents	(1,189)	(3,386)
Cash and Cash Equivalents - Beginning of Year	2,177	5,563
Cash and Cash Equivalents - End of Year	$ 988	$ 2,177

Payments for interest in 2002 were $3,239 (2001 - $4,448) and for taxes were $531 (2001 - $286)
The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change of Name
On May 24, 2002 the Company filed Articles of Amendment that effective that day changed the Corporation's name from Denison Mines Limited to Denison Energy Inc.

Nature of Operations
The Company operates in the mining, oil and gas and environmental service sectors. Mining activities include a 22.5% interest in the McClean Lake uranium property and mill in northern Saskatchewan, where uranium production reached commercial levels in November 1999, a 19.96% interest in the Midwest uranium deposit and mineral evaluation and exploration. Oil and gas activities consist primarily of the exploration for and production of oil and natural gas in Western Canada, where the Company resumed operations in late 2000 and has expanded through both exploration and acquisitions including the Innovative acquisition described in note 12. The Company also holds oil and gas exploration acreage in Greece. Environmental services activities include mine decommissioning services and monitoring of closed mine sites.

Basis of Presentation
The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates are related to the economic lives and recoverability of mining and oil and gas assets, the provisions for decommissioning and reclamation, post-employment benefits, future income taxes and the evaluation of contingent liabilities. Actual results could differ materially from those estimates. The summary of significant accounting policies below describes the accounting methods and practices that have been used in the preparation of these consolidated financial statements. This summary is presented to assist the reader in interpreting the statements contained herein.

Certain comparative figures for 2001 have been reclassified to conform with the presentation adopted in the 2002 financial statements. This reclassification has no impact on net earnings or retained earnings.

Consolidation Principles
The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's interests in the McClean Lake and Midwest uranium joint ventures and its oil and gas joint ventures are accounted for using the proportionate consolidation method. Under this method, the Company includes its proportionate share of assets, liabilities, revenues and expenses.

Revenue Recognition
Mining and oil and gas revenue are recognized when title passes from the Company to its customer. Revenue on decommissioning contracts is recognized using the percentage of completion method, where sales, earnings and unbilled accounts receivable are recorded as related costs are incurred. Earnings rates are adjusted periodically as a result of revisions to projected contract revenues and estimated costs of completion. Losses, if any, are recognized fully when first anticipated. Royalty revenue is recognized when earned under the respective agreement.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and short-term investments with original maturities not exceeding 90 days and are stated at cost, which approximates market value.

Inventories and Prepaid Expenses
Uranium concentrates, assets purchased for resale, supplies and ore in stockpiles are recorded at the lower of average cost and net realizable value. Inventory of ore in stockpiles consists of actual costs to remove overburden and mine ore together with the amortization of open pit mining equipment and is charged to production using the units of production method.

Property, Plant and Equipment
Mining Property, Deferred Exploration and Development Costs
Exploration costs and property acquisition costs are expensed as incurred unless it is determined that a project contains economically recoverable reserves, in which case all such costs relating to that project for the current and subsequent years are capitalized. Pre-production costs, net of revenue during the start-up phase, are capitalized as development costs until the project is capable of sustained operations at commercial production levels. Capitalized mining property, deferred exploration and development costs are amortized using the unit of production method over the expected life of the mine after commercial production levels are attained.

Mine Buildings, Plant and Equipment
Mine buildings, plant and equipment are recorded at cost. Mine buildings, plant and equipment are amortized to estimated residual value over the shorter of the life of the mine, or specific period that the mill or other specific asset will be utilized, using the units of production method. When assets are retired or sold, the resulting gains or losses are reflected in current earnings.

Mining Property Evaluations
The carrying values of mining, exploration and development properties and related mine buildings and equipment are periodically assessed by management to determine whether the net recoverable amount exceeds the carrying value of the project. Any unrecoverable amount is written off against earnings. The net recoverable amount represents future undiscounted cash flows determined using proven, probable and expected reserves and estimated selling prices which reflect both historical prices and expected future selling prices, less operating, capital, financing and reclamation costs.

Oil and Gas Properties, Plant and Equipment
The Company's oil and gas properties, plant and equipment are carried at the lower of cost and net recoverable amount. All costs associated with the exploration for and the development of oil and gas properties are capitalized providing the total capitalized cost does not exceed the net recoverable amount. All costs of the Company's oil and gas property, plant and equipment are capitalized in one producing cost centre. Depletion is provided on capitalized costs in this producing cost centre by the units of production method based on estimated proven reserves.

Oil and Gas Property Evaluations
Net recoverable amount is the aggregate of estimated undiscounted future net revenues from proven reserves less operating, administration, financing and income tax expense. Estimated future net revenues are determined using year-end prices. The Company periodically reviews the costs associated with preproduction stage cost centres to determine whether costs are likely to be recovered. Any unrecoverable amount is written off against earnings.

Other Property, Plant and Equipment
Other property, plant and equipment are amortized according to the straight-line method based on their estimated useful lives, which range from three to twenty years.

Capitalization of Interest
Net interest costs incurred during the development, construction and start-up phase of major projects are capitalized.

Decommissioning and Site Restoration Cost
Estimated decommissioning and site restoration costs of resource properties are accrued and charged to operations using the unit of production method. Provisions with respect to site restoration include long-term treatment and monitoring costs of a longer term nature and are calculated on a discounted basis and incorporate total expected costs net of recoveries. Expenditures incurred to dismantle facilities, restore and monitor closed resource properties are charged against the related decommissioning and site restoration liability. The Company's resource activities are subject to various governmental laws and regulations related to the protection of the environment. The Company has made and continues to make expenditures in order to comply with or exceed such laws and regulations. The Company is continuously updating its decommissioning and site restoration cost estimates. Such estimates are, however, subject to changing laws, regulatory requirements, changing technology and other factors which will be recognized when applicable.

Post Employment Benefits
The Company provides dental, supplemental health care and life insurance benefits, but not pensions, to its former Canadian employees who retired on immediate pension from active service prior to 1997. The estimated cost of providing these benefits is actuarially determined using the projected benefits method and was accrued over the service life of this retiree group. The most recent actuarial valuation of this obligation was performed as of September 30, 2002. The interest cost on this unfunded liability and the surplus are being amortized over the remaining lives of this retiree group.

Future Income Taxes
The Company follows the asset and liability method of accounting for future income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on temporary timing differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to apply when the differences are expected to reverse. The benefit of tax losses which are available to be carried forward are recognized as assets to the extent that they are more likely than not to be recoverable from future taxable income. Benefits which are recognized in respect of tax deductions which arose prior to the Company's comprehensive revaluation of assets in 1995 are credited directly to retained earnings and benefits which are recognized in respect of tax deductions which arose subsequent to the comprehensive revaluation of the Company's assets are credited to net earnings. The Canadian federal large corporations tax on capital is included in the provision for income taxes.

Translation of Foreign Currencies
Monetary assets and liabilities and non-monetary items carried at market value are translated into Canadian dollars at the period-end exchange rate. Other non-monetary items and revenues and expenses are translated at approximate rates in effect at the dates of the transactions, except depletion and amortization which are translated at the same rate as the related assets.

Financial Instruments
The carrying amounts for cash and short-term deposits, accounts receivable, inventories and prepaid expenses, accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments. The fair market value of long-term debt approximates book value unless otherwise disclosed. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument.

Stock Option Plans
In 2002 the Company adopted prospectively the requirements of the CICA handbook section 3470, "Stock-Based Compensation and Other Stock Based Payments." As encouraged by section 3470, the Company has adopted the fair value based method to account for stock-based transactions with directors, and eligible employees for options granted in 2002. The value is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus will be credited to Common

Share capital. For options granted prior to January 1, 2002 the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When these options are exercised, the proceeds received by the Company will be recorded as Common Share capital.

Earnings per share
Basic earnings per Common Share are computed by dividing net earnings by the weighted average number of Common Shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from exercise of in-the-money stock options are used to repurchase Common Shares at the prevailing market rate.

2. INVENTORIES AND PREPAID EXPENSES

	2002	2001
		(in thousands)
Uranium concentrate	$ 8,046	$ 7,064
Inventory of ore in stockpiles	14,522	18,246
Mine supplies	1,405	1,543
Mining equipment acquired for resale	—	483
Prepaid expenses	831	291
	24,804	27,627
Less: Non-current portion - Inventory of ore in stockpiles	9,689	13,413
Current portion inventories and prepaid expenses	$ 15,115	$ 14,214

Stockpiles include inventory from two open pit mining areas at the McClean Lake minesite where mining was completed in February 2002. Ore from these stockpiles will be processed over several years.

3. PROPERTY, PLANT AND EQUIPMENT

(a) The net property, plant and equipment balance consists of:

	2002			2001
	Cost	Accumulated depletion and amortization	Net	Net
				(in thousands)
Mining				
McClean Lake / Midwest uranium projects				
Mining property and development costs	$ 37,965	$ 10,935	$ 27,030	$ 31,861
Mine buildings, plant and equipment	92,296	8,602	83,694	84,221
	130,261	19,537	110,724	116,082
Oil and Gas	22,715	2,268	20,447	13,559
Environmental Services	547	194	353	337
	$153,523	$ 21,999	$131,524	$ 129,978

(b) As at December 31, 2002 the Company has a 22.5% interest in the McClean Lake mine and mill and a 19.96% interest in the Midwest uranium project, both located in northern Saskatchewan. The McClean Lake mill achieved commercial production levels on November 1, 1999 and has been constructed to process ore from the McClean Lake mine as well as other deposits. A toll milling agreement has been signed with the participants in the Cigar Lake Joint Venture that provides for the processing of a substantial portion of the future output of that mine at the McClean Lake mill, for which the owners of the McClean

Lake mill will receive a toll milling fee. In determining the amortization rate for the McClean Lake mill, the Company has reduced the amount to be amortized by its expected share of future toll milling revenue.

4. BANK INDEBTEDNESS

As at December 31, 2002 the Company had a borrowing facility of up to $6,000,000. Subsequent to year-end, as a result of the fact that substantial proven gas reserves are awaiting pipeline allocation and the short production history of two new wells, this borrowing facility has been reduced to $4,600,000. This facility is subject to an annual review and is repayable from oil and gas cash flows. This facility bears interest at Canadian bank prime (which was 4.5% on December 31, 2002) plus 0.5% and is secured by a first charge on certain oil and gas properties and a floating charge on other assets in the Western Canadian Basin and not pledged under the facilities described in notes 5(b) and 5(c).

5. LONG-TERM DEBT

(a)

		2002		2001
				(in thousands)
McClean Lake loan (note 5(b))	$	**51,962**	$	60,724
Other long-term debt (note 5(c))		**2,308**		2,937
		54,270		63,661
Less: Current portion		**10,712**		11,961
	$	**43,558**	$	51,700

(b) On December 31, 2002, $51,962,000 (2001 - $60,724,000) was outstanding on a loan from Cogema Resources Inc., arranged to finance the Company's share of the costs of development and operation of the McClean Lake mine and mill and Midwest uranium project. This loan is secured only by the Company's interest in the McClean Lake mine and mill and the Midwest uranium project. The Company's share of net cash flow from McClean Lake uranium sales is dedicated to the loan's repayment. The Company has the right to prepay portions of the loan facility and redraw amounts prepaid, including interest savings from amounts prepaid, on 45 days' notice. As at December 31, 2002, the Company has the ability to redraw $7,257,000. Interest on this loan is payable at Canadian bank prime plus 1%. Interest of $2,798,000 (2001 - $4,186,000) was incurred during the year on this loan facility. No interest was capitalized in 2001 or 2002. The loan is currently scheduled to mature on December 31, 2005, but will be extended to December 31, 2010 if, prior to December 31, 2005, a production decision is made to develop the Midwest uranium project. Any principal balance outstanding at maturity is repayable at 20% per annum. It is not possible to determine the fair value of the McClean Lake loan.

(c) Other long-term debt of $2,308,000 as at December 31, 2002 is repayable over three years up to August 31, 2005 in annual installments plus interest which approximates Canadian bank prime. Interest expense in 2002 was $117,000 (2001 - $246,000). Principal payments in the next three years are: 2003 - $698,000; 2004 - $761,000 and 2005 - $849,000.

(d) The Company has a line of credit for $300,000 from a Canadian Chartered Bank. This line of credit bears interest at Canadian bank prime and is secured by a short-term deposit. As at December 31, 2002, a letter of credit for $35,000 had been issued against this line of credit.

6. POST EMPLOYMENT BENEFITS

The Company's post employment benefits accrual includes life insurance for each of its former Canadian employees who retired on immediate pension prior to 1997, together with the future cost of medical and dental benefits as set out in the group policies. The amount accrued is based on estimates provided by the plan administrator which are based on past experience, limits on coverage included in the plan and other

assumptions including a growth in medical cost of up to 13% initially, decreasing over five years to 8% per annum and a growth in dental costs of 6% per annum, subject to limits set out in the group policies.

The Company's post employment benefit plan is not funded. Changes in the accrued benefit obligation are as follows:

	2002	2001
		(in thousands)
Accrued benefit obligation - beginning of year	$ 5,834	$ 5,966
Benefits paid	(455)	(482)
Interest cost	335	350
Accrued benefit obligation – end of year	5,714	5,834
Unamortized initial transitional surplus	4,749	5,142
	10,463	10,976
Less: Current portion included in accounts payable	400	500
	$ 10,063	$ 10,476

The unamortized initial transitional surplus is being amortized over the expected 12.5 year average life expectancy of this retiree group.

7. DECOMMISSIONING AND SITE RESTORATION

(a)

	2002	2001
Elliot Lake		(in thousands)
Elliot Lake mine site restoration accrual (*note 7(b)*)	$ 7,984	$ 8,418
Less: Balance in Elliot Lake Reclamation Trust Fund (*note 7(b)*)	1,606	1,761
	6,378	6,657
Less: Current portion included in accounts payable	400	425
	5,978	6,232
McClean Lake uranium operations (*note 7(c)*)	498	388
Canadian oil and gas (*note 7(d)*)	122	90
	$ 6,598	$ 6,710

(b) The Company's Elliot Lake uranium mine closed in 1992 and capital works to decommission this site were completed in 1997. The remaining provision is for the estimated cost of monitoring the Tailings Management Areas at the Denison and Stanrock sites and for treatment of water discharged from these areas. The Company conducts its activities at both the Denison and Stanrock sites pursuant to decommissioning licenses issued by the Canadian Nuclear Safety Commission. The above accrual represents the Company's best estimate of the future reclamation cost based on assumptions as to levels of treatment which will be required in the future. The financial effect of future changes, if any, in requirements, laws, regulations and operating assumptions may be significant, and will be recognized if and when applicable.

Pursuant to a Reclamation Funding Agreement, effective June 30, 1994, with the Governments of Canada and Ontario, the Company was required to deposit 90% of its cash flow, after deducting permitted expenses, into the Reclamation Trust Fund. A subsequent agreement with the governments provides for the suspension of the Company's obligation to deposit 90% of its cash flow into the Reclamation Trust, provided the Company maintains a balance in the Reclamation Trust equal to estimated reclamation spending for the succeeding six calendar years. Withdrawals from this trust fund can only be made with the approval of the Governments of Canada and Ontario, to fund Elliot Lake site restoration costs. The Company believes that the current Reclamation Trust balance will be adequate to fund these costs through 2008.

(c) As at December 31, 2002, the Company has accrued $498,000 (2001 - $388,000) for future decommissioning and site restoration of the McClean Lake operation. In addition this operation is subject to environmental regulations as set out by Saskatchewan Environment and the Canadian Nuclear Safety Commission. As required by Saskatchewan Environment, the operator of the McClean Lake joint venture has arranged Letters of Credit securing future decommissioning and reclamation liabilities. The Company has agreed to indemnify the operator for its proportionate share of any loss incurred up to a maximum amount of $7,755,000.

(d) The Company has estimated future removal and site restoration costs of $325,000 (2001 - $278,000) for abandoning its Canadian oil and gas wells and facilities.

8. INCOME TAXES

(a) The components of current and future income taxes are as follows:

	2002		2001	
	Current	**Future**	Current	Future
				(in thousands)
Balance – beginning of year	$ —	$ 983	$ 4	$ 2,773
Current year expense (recovery)				
2002 - $(139,000)	413	(552)	—	—
2001 - $(1,504,000)	—	—	286	(1,790)
Refund (payment of taxes)	(544)	—	(290)	—
Reclassification	131	(131)	—	—
Balance - end of year	$ —	$ 300	$ —	$ 983

(b) Since the Company operates in three industrial and geographic segments, its income is subject to varying rates of taxation. A reconciliation of the combined Canadian federal and provincial income tax rate to the Company's effective rate of income and resource taxes is as follows:

	2002	2001
		(in thousands)
Earnings before income taxes	$ 2,929	$ 3,214
Combined federal and provincial income tax rate	43.50%	43.04%
Computed income tax expense	$ 1,274	$ 1,383
Increase (decrease) in taxes resulting from:		
Benefit of previously unrecognized federal and provincial tax pools	(1,198)	(1,307)
Resource allowance	(81)	(61)
Reduction in Ontario income tax rate due to lower income allocation to Ontario	—	(2,000)
Adjustments relating to other years	(469)	—
Other	(78)	195
Ontario income tax recovery	(552)	(1,790)
Federal large corporation tax	413	286
Income tax recovery	$ (139)	$ (1,504)

(c) The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period. The Company's future tax liability arises in computing its Ontario tax liability, from the deduction of temporary differences, principally capital cost allowance, Canadian exploration and development expenses of $30 million more

for tax than accounting, less the future tax reduction expected from the utilization of non-capital losses of $20 million which expire in 2006. As at December 31, 2002, the Company has not recognized the future tax benefits for both Federal and Saskatchewan tax purposes, from the future utilization of non-capital loss carry forwards of $21 million expiring in 2006 or temporary tax differences in excess of book values of $208 million that it can carry forward to shelter future Federal and Saskatchewan income tax liabilities. Of this amount, $97 million relates to deductions which arose prior to the Company's comprehensive revaluation of assets in 1995. In 2002, the Company was able to offset its entire Federal and Saskatchewan income tax expense against these unrecognized tax deductions.

9. SHAREHOLDERS' EQUITY

(a)

		2002		2001
				(in thousands)
Common Stock (*note 9(b)*)	**$**	**5,568**	$	935
Common Share Purchase Warrants (note 9(c))		—		688
Contributed Surplus (*note 9(c)*)		**937**		240
Retained Earnings		**81,647**		78,579
	$	**88,152**	$	80,442

(b) Common Stock

Authorized
The authorized share capital consists of an unlimited number of Common Shares.

Issued
Changes in issued Common Shares were as follows:

	Number of Shares		
			(in thousands)
Balance as of December 31, 2000	**15,893,560**	$	1
Shares issued on acquisition of Innovative Energy Inc. net of issued cost of $33,000 (note 12(d))	**386,880**		934
Balance as of December 31, 2001	**16,280,440**		935
Purchase and cancellation of fractional Common Shares resulting from one for 20 share consolidation	**(3,287)**		(12)
Issue of flow-through Common Shares net of $355,000 issue costs	**1,428,571**		4,645
Balance as of December 31, 2002	**17,705,724**	$	5,568

All Common Stock balances have been restated to reflect a one for 20 share consolidation, which became effective on May 24, 2002. Prior period earnings per share have been calculated to give effect to this share consolidation as if the share consolidation had been effective at the beginning of the earliest period presented.

(c) Contributed Surplus and Common Shares Warrants
On July 18, 2002, 549,550 Common Shares Purchase Warrants expired resulting in the addition of $668,000 to Contributed Surplus. Additions to contributed surplus in 2002 also include $9,000 amortized on stock options issued in 2002 which are described below.

(d) Stock Option Plan

The Company has issued stock options pursuant to a Stock Option Plan, approved by shareholders in 1996, under which the Board of Directors may issue up to 2,384,000 Common Shares to directors, eligible employees and service providers. Under this plan the exercise price of each option equals the market price of the Company's stock on the date of the grant. A portion of the issued options vest on the anniversary of their grant, except that all options outstanding vest immediately on a takeover. Options expire if unexercised after ten years. A summary of the status of the Company's stock options issued under this plan as at December 31, 2002 and 2001 and changes during the years ending on those dates is presented below:

	2002		**2001**	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price
Outstanding beginning of year	**927,250**	**$ 5.04**	559,750	$ 6.65
Granted	**75,000**	**2.49**	367,500	2.60
Forfeited	—	—	—	—
Outstanding end of year	**1,002,250**	**$ 4.85**	927,250	$ 5.04
Options exercisable at year-end	**775,708**		626,650	

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Number Outstanding Dec. 31, 2002	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Prices	Number Outstanding Dec. 31, 2002	Weighted-Average Exercise Price
$7.20 to $7.80	450,250	3.4	$ 7.62	450,250	7.62
$2.31 to $3.15	552,000	8.3	$ 2.60	325,458	2.60
$3.15 to $7.80	1,002,250	5.6	$ 4.85	775,708	4.85

In 2002, the Company adopted prospectively CICA handbook section 3870, "Stock-based Compensation and Other Stock-Based Payments". The compensation expense associated with this stock option series has been calculated using the Black-Scholes option-pricing model and $9,000 has been expensed in 2002. The pricing model assumes a 10-year term, expected Common Stock price volatility of 67% and a weighted average life of 10 years and a weighted average risk-free interest rate of 5.4% and an assumption that dividends are reinvested in the Company. These options have a ten-year term, with vesting periods ranging from one to four years of the grant date.

(e) Earnings Per Share Data

Prior period earnings per share calculations give effect to the share consolidation described in note 9(b) as if the share consolidation had been effective at the beginning of the period presented.

The calculation of basic earnings per share is based on the weighted average number of shares outstanding during the year in the amount of 16,879,892 (2001 - 15,949,737) Common Shares.

The calculation of diluted earnings per share takes into consideration the potential issue of shares under Stock Options and, in 2001, Common Share Purchase Warrants where the strike price is below the average Common Share price for the year. The number of dilutive options in 2002 is 314,204 (2001 – 412,500). In 2002, 688,046 (2001– 514,750) Stock Options and in 2002 0, (2001 550,000) Common Share Purchase Warrants have been excluded from the calculation of diluted earnings per share as the exercise price is greater than the average Common Share price in the year.

10. OTHER CHANGES IN WORKING CAPITAL

Other changes in working capital consist of:

	2002	2001
		(in thousands)
Accounts receivable	$ 567	$ 868
Inventories and prepaid expenses	2,390	(6,164)
Less amortization of ore milled from stockpiles	(4,912)	(5,863)
Accounts payable and accrued liabilities	(1,891)	(45)
Current taxes payable	—	(4)
	$ (3,846)	$ (11,208)

11. CONTINGENT LIABILITIES AND COMMITMENTS

(a) On September 23, 2002 The Federal Court of Canada, Trial Division, quashed the original McClean Lake facility operating license issued in 1999. That license had been superceded and the facility has continued to operate under the new four-year operating license issued in August 2001. The Trial Division decision has been appealed by both the federal regulator of the facility, the Canadian Nuclear Safety Commission ("CNSC") and by the operator and majority owner of the facility, Cogema Resources Inc. The Federal Court of Appeal granted a stay of the Trial Division decision pending the outcome of the appeal.

The Trial Division decision quashed the original 1999 operating license on the basis that the *Canadian Environmental Assessment Act* was not complied with. Specifically, the project was subject to a lengthy public process under legislation that was replaced by the Canadian Environmental Assessment Act. The Trial Division decision creates a significant amount of uncertainty about the rules applicable to obtaining the necessary approvals for the operation of the McClean Lake facility.

While the outcome of the appeal process cannot be determined, the Company believes that ultimately the Trial Division decision will be nullified through the appeal process, by the completion of further regulatory requirements or by legislative change. Pending the appeal of the decision, the stay granted by the Federal Court of Appeal eliminates the risk of a stoppage in production at McClean Lake. The Company believes that with the continuing efforts of all interested parties, a shut down of the McClean Lake facility is unlikely. The impact of an unfavourable decision cannot be determined at this time.

(b) In September 2002 the Greek Court of Appeal overturned the lower court decision that had ruled that the termination of Denison's former employees, following closure in 1998 of its Greek oil and gas operations, was invalid and abusive and that further payments should be made. In totally rejecting the lower court decision, the Court of Appeal determined that the terminations were made in good faith and in accordance with applicable law and ruled that no further severance payments are required to be made. The appeal period has not yet formally expired, but the Company believes that an appeal is unlikely and if started, would be unsuccessful. The dollar impact of any adverse decision against the Company cannot be determined.

During 2002 the Company reviewed and effectively eliminated its provision for closure of its Greek operations.

(c) The City of Elliot Lake has filed complaints with the Ontario Assessment Review Board, alleging that the Municipal Property Assessment Corporation has:

(i) understated the current value which the City is required to use in determining the annual property taxes attributable to the tailings management areas at the Company's decommissioned Elliot Lake mine site and those of other closed uranium mines in Elliot Lake; and

(ii) incorrectly categorized these tailings management areas as vacant commercial land, rather than occupied industrial land.

The Company believes that the City's complaints are unlikely to be successful. The dollar value of any additional taxes arising from these complaints, in the event the City were to be successful, cannot be determined but could be material and no provision has been made for such amounts.

(d) The Company is involved in various other legal actions in the course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse effect on the Company's financial position or results.

(e) In July 2002, the Company raised $5,000,000 through the issue of 1,428,571 flow-through Common Shares. The Company is required to spend proceeds of this issue on Canadian Exploration Expenditures. As at December 31, 2002, $2,355,000 remains to be spent prior to July 30, 2004.

(f) The Company's lease commitments under two operating leases for premises are 2003 - $223,000, 2004 - $196,000, 2005 - $25,000 and 2006 - $7,000.

12. ACQUISITION OF INNOVATIVE ENERGY LTD.

Effective November 8, 2001 the Company acquired 100% of Innovative Energy Ltd. of Calgary. The acquisition has been accounted for as a purchase and accordingly these financial statements include Innovative's results from November 8, 2001 onward. The estimated fair value of net assets acquired on November 8, 2001 from Innovative Energy Ltd. and the consideration paid, were as follows:

	As at November 8, 2001
Net assets acquired	(in thousands)
Assets	
Current assets	$ 533
Oil and gas property, plant and equipment	5,597
	6,130
Liabilities	
Bank indebtedness	2,285
Other current liabilities	913
Provision for site restoration	82
	3,280
Net assets acquired	$ 2,850
Consideration	
Cash	$ 1,916
Non cash	
Issue of 386,880 Common Shares net of issue costs of $33,000	934
Total consideration	$ 2,850

13. SEGMENTED INFORMATION

Operations are in the following industries:

Mining	- primarily involves mining, milling and sale of uranium concentrates and exploration and development of mineral properties.
Oil and Gas	- exploration, development, production and sale of oil and natural gas and receipt of royalty revenue.
Environmental Services	- mine decommissioning services and monitoring of decommissioned sites for third parties.

Industry Data (in thousands)

		Mining		Environmental Services		Oil and Gas		Corporate		Total	
		2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Revenue	$	**28,511**	26,253	**3,313**	3,023	**6,142**	2,788	—	—	**37,966**	32,064
Operating and exploration costs – Canada		**18,374**	16,879	**3,849**	3,055	**4,351**	774	—	—	**26,574**	20,708
– Greece		—	—	—	—	**(730)**	—	—	—	**(730)**	—
Royalties and provincial capital tax		**2,305**	1,851	—	—	**1,488**	220	—	—	**3,793**	2,071
Interest expense		**3,026**	4,186	—	—	—	—	**213**	262	**3,239**	4,448
General corporate expenses		—	—	—	—	—	—	**2,283**	2,005	**2,283**	2,005
Investment income		**(87)**	(142)	—	—	—	—	**(35)**	(240)	**(122)**	(382)
		23,618	22,774	**3,849**	3,055	**5,109**	994	**2,461**	2,027	**35,037**	28,850
Earnings (loss) before income taxes		**4,893**	3,479	**(536)**	(32)	**1,033**	1,794	**(2,461)**	(2,027)	**2,929**	3,214
Income tax expense (recovery)		—	—	—	—	—	—	**(139)**	(1,504)	**(139)**	(1,504)
Net earnings (loss) for the year	$	**4,893**	3,479	**(536)**	(32)	**1,033**	1,794	**(2,322)**	(523)	**3,068**	4,718
Capital expenditures	$	**609**	1,173	**75**	92	**8,815**	7,752	—	—	**9,499**	9,017
Depletion, amortization and reclamation	$	**5,755**	6,462	**59**	58	**1,959**	342	—	—	**7,773**	6,862
Identifiable assets											
Producing assets	$	**138,443**	148,272	**1,202**	1,368	**21,041**	13,417	—	—	**160,686**	163,057
Held for or under development		**8,296**	8,243	—	—	**1,152**	1,054	—	—	**9,448**	9,297
Corporate assets		—	—	—	—	—	—	**266**	1,079	**266**	1,079
	$	**146,739**	156,515	**1,202**	1,368	**22,193**	14,471	**266**	1,079	**170,400**	173,433

Geographic Data (in thousands)

		Canada		Europe		Rest of the World		Total	
		2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Revenue	$	**37,966**	30,323	—	—	—	1,521	**37,966**	31,844
Net earnings (loss) for the year	$	**2,338**	3,197	**730**	—	—	1,521	**3,068**	4,718
Identifiable assets	$	**170,326**	173,248	**326**	184	**1**	1	**170,653**	173,433

Mining revenue includes $12,146,000 (2001 - $10,870,000) from one customer.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Denison Energy Inc.
For the years ended December 31, 2002 and 2001

OVERVIEW

The year 2002 marked another successful production year at the McClean Lake uranium facility and the continued expansion of the Company's focus on oil and gas. The Company successfully raised $5.0 million through the issue of 1,428,571 flow-through Common Shares and is pursuing an aggressive oil and gas exploration program in Western Canada. The Company's Environmental Services division continued work on two new long-term contracts that provide it with a base from which it can expand.

In 2002 the Company continued to strengthen its financial position. Cash flow from McClean Lake uranium sales enabled the Company to reduce McClean Lake project debt to $52.0 million at December 31, 2002

The Company had cash and cash equivalents of $1.0 million as at December 31, 2002 together with the ability to redraw $7.3 from the Cogema loan and $2.5 million on its lines of credit.

REVIEW OF OPERATIONS

The following table summarizes selected financial information related to the Company and its operations for the period indicated. Management recommends that the reader review the Consolidated Financial Statements prior to reviewing Management's Discussion and Analysis.

	Year ended December 31		
(in millions of dollars except per share amounts)	**2002**	2001	2000
Revenue			
Mining	**28.5**	26.2	27.7
Environmental Services	**3.3**	3.0	1.8
Oil and Gas	**6.2**	2.8	10.3
	38.0	32.0	39.8
Operating and exploration costs	**(25.8)**	(20.7)	(21.4)
Royalties and provincial capital taxes	**(3.8)**	(2.1)	(2.1)
Interest expense	**(3.2)**	(4.4)	(6.0)
General corporate expenses	**(2.3)**	(2.0)	(2.3)
Investment income	**0.1**	0.4	1.4
Income tax (expense) recovery	**0.1**	1.5	(0.4)
Net earnings (loss)			
Mining	**4.9**	3.5	0.5
Environmental Services	**(0.5)**	0.0	(0.3)
Oil and Gas	**1.0**	1.8	10.4
Corporate	**(2.3)**	(0.6)	(1.6)
	3.1	4.7	9.0
Net earnings per Common Share	**0.18**	0.30	0.57

Mining Division

(in millions of dollars)	2002	2001	2000
		Year ended December 31	
Revenue			
Uranium sales	**28.5**	26.2	27.7
Earnings			
Uranium sales	**8.0**	7.9	6.7
Interest expense on McClean Lake debt	**(3.0)**	(4.2)	(5.9)
Interest income	**0.1**	0.1	0.2
Other (principally exploration)	**(0.2)**	(0.3)	(0.5)
	4.9	3.5	0.5

McClean Lake Facility

Production (000 pounds U_3O_8)	2002	2001	2000
Denison 22.5% share of McClean Lake production	**1,372**	1,484	1,353
Share of additional production from first 2.1 million pounds	—	—	733
	1,372	1,484	2,086

In 2003, Denison's planned share of production is 1,350,000 pounds representing its 22.5% share of planned production by the McClean Lake Joint Venture. Production at McClean Lake commenced in June 1999 and commercial levels of production were achieved on November 1, 1999. In 2000, the Company's share of production exceeded its 22.5% joint venture share of production as a result of a separate agreement with one of the other participants. In 2000, 812,500 pounds were used to repay concentrate borrowed from a third party in previous years.

In 2002, the Company's uranium sales volume increased by approximately 16% over the 2001 volume. The margin on sales decreased by 17%. In both 2002 and 2001, the Company chose to build strategic inventory in anticipation of sales in the future at prices higher than those currently available in the spot market. The Company's uranium sales are under eleven different long-term contracts with utilities in the United States and the Far East covering approximately all of Denison's production at nominal rates in 2003 and 2004 and a large part of the production currently forecast to 2010. These contracts have various durations and contain a variety of pricing formulas. In 2003, preliminary indications from customers are that uranium deliveries will be 11% in Q1, 47% in Q2, 7% in Q3 and 35% in Q4.

In February 2002, the mining of the Sue C pit was completed recovering 36.5 million pounds of uranium into stockpiles, up 33% from amounts originally anticipated for Sue C. As a result of this increased recovery, amortization rates for mining and processing costs were reduced in mid 2001 and mining related cash costs were reduced from $4.9 million in 2001 to $1.8 million in 2002. As a result of the increased uranium recovery, mining operations will be suspended for several years and the cash savings will be available to assist in repaying long-term debt. No firm decision has been made as yet on the future sequence of mining the Sue A, B and E deposits, the McClean Lake underground deposit or the Midwest ore reserves. The results of exploration to evaluate the discovery of uranium mineralization at Caribou Lake will also affect the decisions on the timing and sequencing of exploiting these deposits. Various regulatory approvals are required to enable mining to commence at any of these sites. In addition, an agreement must be reached with an adjacent leaseholder to permit the Sue E reserves on both properties to be mined.

In 2002, mill unit operating costs continued to decline, even though the volume of ore milled in 2002 increased by approximately 25% over 2001 as the ore grade was gradually reduced during the year from an average grade of 3.10% U_3O_8 in 2001 to 2.29% in 2002. It is planned to reduce the milling grade to 2.12%, approximately the grade of the ore in the stockpile, to optimize milling costs over the next four years.

In 2002 definitive agreements were signed enabling the Cigar Lake joint venture to process its ore at the McClean Lake mill. All Cigar Lake ore will be leached at the McClean Lake mill following which the pregnant aqueous solution will be divided between the McClean Lake and Rabbit Lake facilities for processing into uranium concentrates. It is anticipated that toll milling could begin at McClean Lake as early as late 2005. This toll milling arrangement will provide significant benefits to the McClean Lake Joint Venture through a toll milling fee, a reduction in mill unit operating costs resulting from economies of scale and the extension of the useful life of the facilities for many years resulting in a deferral of decommissioning and site restoration costs. Commencement of toll milling requires regulatory approvals and a final production decision by the Cigar Lake joint venture.

The Company pays a Saskatchewan basic uranium royalty of 4% of gross uranium sales after receiving the benefit of a 1% Saskatchewan resource credit. The Company also pays Saskatchewan capital taxes based on the greater of 3.6% of gross uranium sales and capital tax otherwise computed under the act. The Saskatchewan government also imposes a tiered royalty which ranges from 4% to 10% of gross uranium sales after recovery of mill and mine capital allowances which approximate capital costs. The Company has not paid tiered royalties in the past and has sufficient mill and mine capital and expansion allowances available or anticipated to shelter it from the tiered royalty at current uranium prices for many years.

Elliot Lake Decommissioning
In 2002, the Company spent $0.4 million (2001 - $0.6 million, 2000 - $0.7 million) at its Elliot Lake facility. Spending, primarily on monitoring and water treatment, is expected to be reduced in 2003 and 2004 and continue to decline marginally thereafter. All spending is paid for from the Elliot Lake Reclamation Trust, which had a balance of $1.6 million at December 31, 2002. This balance with interest earned thereon is expected to be adequate to fund all monitoring and treatment costs through to December 31, 2008. Future expenditures will consist of ongoing site monitoring of both the Denison and Stanrock Tailings Management Facilities and treating the water runoff from the Stanrock property for as long as 25 to 50 years. The balance of the total provision for $8.0 million represents the estimated present value of maintenance, monitoring and water treatment.

Post Employment Benefits
Retirees from the Company's Elliot Lake mine are entitled to certain medical and dental benefits and life insurance. At December 31, 2002 the liability in the Consolidated Balance Sheets is $10.5 million dollars. The most recent actuarial report on this liability as of September 30, 2002 estimates that the actuarial liability is approximately $5.7 million. The surplus of $4.8 million, net of interest on the unfunded $5.7 million liability, is being credited to income over the average 12.5 year average life expectancy of this retiree group.

Risks and Uncertainties of the Mining Division
Reference is made to note 11(a) of the 2002/2001 Consolidated Financial Statements which describes the status of the Company's appeal of The Federal Court of Canada, Trial Division decision which quashed the original McClean Lake Facility operating license issued in 1999. Production has continued under the most recent license, issued in 2001, and a stay decision granted by the Federal Court of Appeal eliminates the risk of a stoppage of production at McClean Lake until the appeal court decision is known. The dollar impact of an unfavourable decision against the Company cannot be determined at this time.

Reference is made to note 7 of the 2002/2001 Consolidated Financial Statements that details the basis upon which management has estimated decommissioning and site restoration costs.

Reference is made to note 11(c) of the 2002/2001 Consolidated Financial Statements which describes complaints filed by the City of Elliot Lake with the Ontario Assessment Review Board, alleging that the Municipal Property Assessment Corporation both incorrectly classified or assessed the tailings management areas at the former Elliot Lake minesite. It is not possible to quantify the dollar impact if the City was successful.

Ongoing profitability of the McClean Lake mine requires continued control of mine and mill costs and favourable marketing conditions. The mine is currently licensed to produce uranium at 8,000,000 pounds per year until 2005. Long-term profitability will be enhanced when an agreement is reached to enable the McClean Lake Joint Venture

to mine the Sue E deposit and a development decision is made with respect to the Midwest property, which will supply additional ore to the McClean Lake mill. Profitability will be further enhanced when the toll milling of a portion of the Cigar Lake joint venture ore occurs.

Future development of the Midwest property is dependent upon a production decision being made by the joint venture participants and receipt of government approvals.

The Company is exposed to commodity price risk with respect to uranium sales. The Company sells all of its uranium production through a marketing company, jointly owned with COGEMA, under long-term contracts. These contracts are generally for prices in excess of those prevailing in the spot market, with prices determined by formula or negotiation. Price settlements by negotiation tend to be based on long-term considerations rather than on the fluctuations of the spot markets. Since the mix of contracts being supplied in each calendar quarter will vary, fluctuations in sales volumes and prices will occur and results in any calendar quarter may not be indicative of results for the entire year.

Less than 16% of the Company's uranium revenue under existing long-term contracts is sensitive to fluctuations in the spot price. A change in the spot price of U.S.$1.00 per pound would affect the Company's revenue from sales under long-term contracts by less than $0.4 million per year. Since uranium is priced in U.S. dollars, the Company is also sensitive to changes in the relationship between the Canadian and US dollar.

The mining business is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labour disputes, unexpected geological conditions, changes in the regulatory environment, delays in permitting and licensing of new projects and weather related phenomena. Such occurrences could result in damage to or destruction of properties and facilities, personal injury or death, environmental damage, delays in mining, monetary liability and possible legal liability. Although the Company maintains insurance against risks that are typical of the mining industry, such insurance may not provide adequate coverage under all circumstances.

Reserves for unmined deposits at McClean Lake and Midwest are to a large extent based on the interpretation of geological data obtained from drill holes and other sampling techniques. Estimates of uranium recoveries and capital and operating costs are based on experience at McClean Lake, where production commenced in 1999, feasibility studies which assess anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, facility and equipment requirements, environmental and reclamation activities and other factors. As a result, actual cash operating costs over the life of the mine and economic returns of any and all development projects may materially differ from the costs and returns as estimated in feasibility studies.

Environmental Services

		Year Ended December 31	
(in millions of dollars)	**2002**	2001	2000
Revenue	**3.3**	3.0	1.8
Earnings (loss)	**(0.5)**	0.0	(0.3)

In 2002 and 2001, two long-term contracts described below provided most of Denison Environmental Services' revenue. This division was also active in each year on several smaller projects.

New long-term contracts entered into during 2001 included:

- a five-year contract, which started April 1, 2001, to perform all monitoring, effluent treatment, maintenance, data storage and reporting activities for five closed mine sites owned by Rio Algom in the Elliot Lake area. These sites are in close proximity to the two Denison owned sites that Denison Environmental Services monitors.
- a contract for at least 30 months, which started in September 2001, to act as primary project manager on behalf of the Government of Newfoundland for the Hope Brook mine decommissioning in Newfoundland.

Long-term contracts such as these are important since they provide a volume of business throughout the year, reducing the seasonality of summertime construction activities, and provide a contribution to overhead. Denison Environmental Services must continue to pursue new contracts in order to grow. The availability of new contract opportunities is dependant on the number of reclamation projects being undertaken by the mining industry and provincial governments.

A significant portion of Denison Environmental Services business has historically involved the sale of mining assets, either as part of its compensation for decommissioning a site or for a fee from third parties. In 2002 this was not the case due to reduced mine construction. Revenues generated from asset sales are sensitive to the level of new mine construction and other demand factors. New mine construction has been low in the last few years and as a result the Company wrote down its inventory of mining equipment held for resale by $433,000.

Oil and Gas Division

	Year Ended December 31		
(in millions of dollars)	**2002**	2001	2000
Revenue			
Canada	**6.2**	1.3	—
Greece sale of oil in tanks produced in 1998	—	—	1.1
Ecuador royalty	—	1.5	9.2
	6.2	2.8	10.3
Net earnings			
Canada	**0.3**	0.3	—
Greece	**0.7**	—	1.1
Ecuador royalty	—	1.5	9.2
	1.0	1.8	10.3

In 2002, Canadian oil and gas activities continued to expand. Oil and gas revenues from Denison's operations in Alberta and Saskatchewan increased by $4.9 million, to $6.2 million from $1.3 million in 2001. Successful producing property acquisitions and new production added by the Company's exploration program, combined with increases in commodity prices, all contributed to the increase in oil and gas revenue in 2002. In 2001, the Company received the final $1.5 million of its royalty from the Villano oil field in Ecuador. Earnings from Greece in 2002 are from reduction in the provision for closure and in 2000 are from final sale of oil in tanks.

Canadian Oil and Gas Operations

	Year ended December 31		
	2002	2001	2000
Production			
Oil (000 barrels)	**120**	35	0.2
Gas (000 mcf)	**516**	63	—
Barrel of oils equivalent (000 barrels) (6:1)	**206**	45	0.2

	Year ended December 31		Year ended December 31	
	2002	2001	**2002**	2001
	(in millions of dollars)		(per boe)	
Revenue	**6.2**	1.3	**$ 29.72**	$ 26.82
Royalties and provincial capital taxes	**1.5**	0.2	**7.21**	5.05
Production expenses	**1.5**	0.4	**7.28**	6.37
Field netback	**3.2**	0.7	**15.23**	15.40

Production volumes have steadily grown from 5 barrels of oil equivalent (boe) per day (at a 6:1 gas to oil conversion) in December 2000 to 438 barrels per day in December 2001 to 648 barrels per day in December 2002. Insufficient pipeline capacity prevented four new Knappen and Aden gas wells from being put into production in 2002. Some pipeline capacity became available in February 2003. Efforts continue to obtain additional pipeline capacity to permit all of our gas wells to be operated at optimum rates. Production increased by 458% in 2002 over the previous year and averaged 330 bbls/d for oil and 1.4 mmcf/d for gas. Denison's core property, located in the Countess area of Alberta, accounted for approximately 67% of 2002 production. In 2002, the Company received an average selling price of $35.81 per bbl and $3.54 per mcf for oil and gas, respectively. The price received for oil and gas increased approximately 22% and 12%, respectively, from the prior year. Denison's oil price is referenced to an Edmonton light sweet price adjusted for quality differentials and transportation to determine the realized price. Denison's gas production is sold pursuant to spot sales contracts and the Company receives a price referenced to AECO delivery point. The Company did not enter into any hedging transactions in 2002.

Royalties include payments made to the Crown, freehold owners and third party overriding royalty participants. During 2002, oil and gas royalties were approximately 24% of revenue compared with 19% in the prior year. Countess production is subject to freehold royalties varying from 20% to 27% while other properties are subject to Crown and overriding royalty interests.

Production expenses were $7.28 per boe in 2002. Production expenses increased approximately 14% per boe from 2001. During August and September, the Company performed an extensive work over program at its Countess area that involved the battery and all of the producing wells. As a result, production expenses in the Countess area, for those two months, averaged $11.15 per boe.

	Year ended December 31		
(in millions of dollars)	**2002**	2001	2000
Capital expenditures			
Exploration and development drilling	**6.4**	3.3	0.6
Facilities	**1.0**	2.2	—
Acquisitions of land and producing property	**1.4**	2.3	—
	8.8	7.8	0.6
Acquisition of Innovative Energy Inc.	—	5.6	—
Increase in property, plant and equipment	**8.8**	13.4	0.6

In late 2000, Denison returned to the Canadian oil and gas business through a 50% participation in an exploration joint venture in Saskatchewan from which production commenced in late December. In 2001, the Company purchased a 50% interest in the Countess oil field as of March 1, 2001 for $2 million, and effective November 8, 2001 purchased the balance of this property together with several others when it completed the purchase of Innovative Energy Ltd. for $4.9 million consisting of the assumption of $2.0 million of debt, payment of $1.9 million in cash and issue of treasury shares of $1.0 million.

In late 2001 Denison participated with Innovative in the drilling of the Knappen discovery well. This well commenced production in mid February 2002, but after initially promising gas production, it was suspended due to high water production. A second well was drilled in this area in the fourth quarter of 2002 with initial production beginning in February 2003 and is currently producing at the restricted rate of 300 mcf per day.

Capital expenditures in 2002 totaled $8.8 million. The Company acquired, for $1.2 million, interests varying from 12.5% to 100% in the Skiff producing oil property located in the Conrad area of southeastern Alberta and plans are underway to reinstate pressure maintenance and thereby more effectively exploit this field. Seismic, drilling and facility expenditures in 2002 increased approximately 42%, to $7.4 million, from $5.2 million in the prior year. Approximately $2.6 million of this spending for exploration drilling was financed from proceeds of a $5.0 million

flow-through share issue of Common Shares. At December 31, 2002, $2.4 million remains to be spent on eligible Canadian Exploration Expenses prior to August 2004.

The table below sets out Denison's drilling activity during the last two years:

	2002		2001	
	Gross	**Net**	Gross	Net
Oil	**3.0**	**2.0**	5.0	3.5
Gas	**5.0**	**4.4**	1.0	1.0
Dry and abandoned	**6.0**	**4.8**	2.0	1.5
Total	**14.0**	**11.2**	8.0	6.0
Success ratio (%)	**57%**		75%	
Average working interest %	**80%**		75%	

Denison's share of gross reserves attributable to its working interests before deducting royalties, as reported by Martin & Brusset Associates effective as of January 1, 2003, totaled 1.97 million boe with a reserve life index of 8.2 years on proven reserves based on exit volumes at December 31, 2002. Reserves are about equally divided between oil and gas. Current production is about 70% oil due to the shut-in gas production capacity. The following table summarizes Denison's gross reserve position at January 1, 2003 (gas converted to oil at a 6:1 conversion ratio):

	Oil (mmbbl)	Gas (bcf)	Total (mboe)
Proven producing	906	2.11	1,257
Proven non-producing	0	2.87	479
Total proven	906	4.98	1,736
Probable additional	167	0.38	230
Total proven and probable	1,073	5.36	1,966
Proven reserve life index (years)	6.5	11.4	8.2

In 2002, Denison's depletion and depreciation provision averaged $9.36 per boe for the year and was $12.54 per boe for the fourth quarter. The increased fourth quarter depletion rate reflects the unfavourable results of the Company's higher risk exploration program in the later part of the year and the industry's trend in 2002 towards higher finding and development costs. Depletion and depreciation charges are calculated on a unit of production method and are based on total proven reserves with a conversion of six thousand cubic feet of gas being equivalent to one barrel of oil. The 2002 depletion calculation includes $805,000 of future capital expenditures to develop the Company's reserves and excludes $69,000 of unproven properties relating to undeveloped land.

Risks and Uncertainties of the Oil and Gas Division

The oil and gas operations are subject to operations risks inherent in exploration for, developing and producing crude oil and natural gas. The Company has a comprehensive insurance program in place to mitigate risk and protect against significant losses. The Company believes that its insurance program is consistent with common industry practice. The Company also maintains comprehensive programs and contingency plans, necessary to control health, safety and environmental risks at all operations that comply with or exceed existing legislative and regulatory requirements. Although the Company expects its exploration and development activities to be successful, there is no assurance that additional commercial oil and gas reserves will be discovered and developed. The Company has little or no control over such external factors as oil and gas prices, access to natural gas pipeline capacity, exchange rates and government regulations.

Reference is made to Note 11 (b) of the 2002/2001 Consolidated Financial Statements, which sets out a contingent liability to a group of former Greek employees. In September 2002, the Greek Court of Appeal overturned a lower

Court decision that had awarded additional termination pay to a group of employees of the Company's Greek operations that the Company turned had over to the Greek government in 1999. The right to appeal under Greek law expires on April 4, 2003.

The Company continues to hold a 75% interest in the 98,487 hectare exploration area east of the island of Thassos in the Aegean Sea where several promising drilling targets were identified in a 885-kilometre seismic program carried out in 1982. Exploration of this area is currently not permitted because of territorial disputes between Greece and Turkey. It is not possible at this time to predict when this dispute will be resolved. All costs related to this area were incurred in the 1980's and were expensed at that time.

Investment Income
The major components of investment income for the last three years are as follows:

	Year ended December 31		
(in millions of dollars)	**2002**	2001	2000
Interest on cash and short-term deposits	**0.1**	0.4	1.2
Gain (loss) on investments	—	—	0.2
	0.1	0.4	1.4

Since November 2000, the Company has had the ability to make prepayments on the McClean Lake loan, thereby reducing interest that accrues on this facility at Canadian Prime plus 1% compounded monthly. As a result, interest income on short-term investments has been very small in 2002 and 2001. In 2003 surplus cash will continue to be applied to reduce both loan principal and bank indebtedness.

Interest Expense
During 2002, the Company incurred interest expense of $3,239,000 (2001 - $4,448,000) including $2,798,000 (2001 - $4,186,000) on its McClean Lake loan. No interest was capitalized in either 2001 or 2002. Interest expense was reduced in 2002 as a result of loan principal repayments and lower Canadian Prime rates.

Income Taxes

	Year ended December 31		
(in millions of dollars)	**2002**	2001	2000
Federal large corporation tax	**0.4**	0.3	0.2
Ontario income taxes	**(0.1)**	0.2	0.2
Other	**(0.4)**	(2.0)	—
	(0.1)	(1.5)	0.4

The Company is currently not subject to cash income taxes in any jurisdiction, however, it is subject to the federal large corporation tax, which the 2003 federal budget proposes to phase out over the next five years. The Company has substantial unclaimed capital cost allowance, and other deductions which fully shelter it from federal and Saskatchewan income taxes and for which no future tax asset is recorded on the balance sheet. As a result its tax provision currently includes Ontario income taxes and federal large corporation taxes. The Ontario government has passed legislation under which Ontario income tax rates will be reduced from 12% currently to 8% in 2005. As a result of this rate reduction together with a higher expected future allocation of taxable income to other provinces, the Company reduced its future taxes payable balance by $2.0 million in 2001. Reference is made to note 8(b) of the 2002/2001 Consolidated Financial Statements, which identifies the major components of the variation in the Company's effective tax rate from the normal Canadian tax rate.

Note 8(c) of the 2002/2001 Consolidated Financial Statements sets out details of the Company's temporary differences between accounting and tax and non-capital loss balances available to shelter future income tax liabilities. The Company has an overall future tax liability in Ontario but does not expect to be cash taxable for

several years. All temporary differences have been incorporated as part of the computation of its future Ontario tax liability of $300,000 at December 31, 2002. The Company has not recorded a future tax asset for temporary differences available to shelter its federal and agreeing province income tax liability. In the three years ended December 31, 2002, the Company was able to shelter its income tax expense with previously unclaimed temporary differences arising subsequent to its comprehensive revaluation of assets, following its reorganization in 1995. Any future utilization of temporary differences existing before 1995 will be charged to retained earnings to reduce income tax expense in the period. As at December 31, 2002 the Company has over $200 million of temporary differences and loss carry-forwards, the potential benefit of which has not been set up as a future tax asset for federal and Saskatchewan income taxes. The future recoverability of a future tax asset for a resource company is largely a function of future commodity price level forecasts.

Cash Flow

2002 Compared to 2001

In 2002, operations generated cash flow of $11.1 million compared with $4.2 million in 2001. Cash flow from uranium of $28.4 million was applied to reduce the McClean Lake long-term debt. During the year, the Company borrowed $15.6 million on this loan to finance mining and milling costs together with royalties and McClean Lake capital and exploration spending of $0.6 million. Cash required in 2002 for mining activities declined from $5.3 million in 2001 to $1.2 million in 2002 as a result of the suspension of mining at McClean Lake in February 2002 until approximately 2005. In addition, the Company reborrowed $4.0 million on the McClean Lake facility to finance oil and gas capital spending and for general corporate purposes. During 2002, the Company raised net proceeds of $4.6 million from the sale of flow-through Common Shares. Oil and gas division capital spending of $8.8 million includes $2.6 million for eligible Canadian exploration spending after the date of the flow-through share issue, and the Company is required to spend an additional $2.4 million on eligible exploration expenditures before July 30, 2004.

2001 Compared to 2000

In 2001, operations generated cash flow of $4.2 million. During the year the Company utilized cash for the acquisition of $7.8 million in oil and gas assets and for the cash portion of the purchase of Innovative Energy Ltd. of $1.9 million. Cash availability increased from sale of marketable securities and a net reborrowing of $2.3 million previously prepaid in 2000 on the McClean Lake loan. As a result cash balances decreased by $3.4 million in 2001. Borrowings on the McClean Lake loan of $26.4 million also financed the Company's share of processing, mining and capital costs of the McClean Lake Joint Venture and a $6.5 million increase in finished goods inventory. The Company applied $25.1 million in 2001 from the sale of uranium to the McClean Lake loan.

FINANCING AND LIQUIDITY

The Company's total cash balance was $1.0 million at December 31, 2002. In addition, the Company had the ability to redraw $7.3 million, on 45 days' notice, under its McClean Lake loan and other available credit lines of $2.5 million at that time. This amount, together with cash flow from Canadian oil and gas operations and the Environmental Services are expected to be more than sufficient to cover ongoing cash requirements for 2003.

Under the terms of a project financing loan for McClean Lake/Midwest, the Company's cash flow from uranium sales is dedicated to funding its share of the costs of the McClean Lake uranium project and repayment of the McClean Lake loan described in note 5 (b) to the 2002/2001 Consolidated Financial Statements. This loan matures on December 31, 2005, which is further extended to 2010, if prior to December 31, 2005, a production decision is made to develop the Midwest uranium project. In 2002, 37% (2001 - 60%) of our uranium sales from McClean Lake were made in the fourth quarter at the request of customers. The current portion of long-term debt at December 31, 2002 includes uranium receivables net of applicable royalties of $10.0 million (2001 - $11.4 million) which were collected in the first 60 days of the subsequent period. As a result, the Cogema loan balance was reduced to $44.2 million by February 28, 2003. At December 31, 2002 security for this loan included $8.0 million for uranium concentrate ready for shipment and $14.5 million of ore in stockpiles ready for milling. These two inventories represent 43% of the McClean Lake loan and as they are liquidated, interest costs and loan balances will decline as sales receipts are applied when received.

The Company has $1.6 million on deposit in the Elliot Lake Reclamation Trust Fund. This amount together with interest earned thereon represents estimated Elliot Lake reclamation spending for the next six years. The Company's ongoing obligations under its Reclamation Funding Agreement with the Governments of Canada and Ontario are discussed in note 7(b) to the 2002/2001 Consolidated Financial Statements. In 2002, the Company deposited $239,000 and future funding requirements into the Reclamation Trust are expected to be less than $400,000 annually in the next few years.

IMPACT OF FUTURE ACCOUNTING DEVELOPMENTS

The Accounting Policies of the Company are described in note 1 to the 2002/2001 Consolidated Financial Statements. Prospectively, effective January 1, 2002, the Company implemented CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Compensation Payments.* As a result, the Company is amortizing the imputed cost of 75,000 stock options issued during 2002 as compensation expense over their vesting period and includes $9,000 in corporate expenses.

The CICA has recently released the following accounting standards, which the Company will be implementing no later than fiscal 2004.

CICA Handbook Section 3063, *Impairment of Long-Lived Assets*

Each year the Company prepares an impairment test on its mining and oil and gas assets. Section 3063 applies only to its mining assets. This new handbook section requires that if a mining asset's value is impaired it be written down to its fair value rather than management's best estimate of future undiscounted cash flows. A preliminary review indicates that implementation of this new requirement will have no impact on the Company.

CICA Handbook Section 3061, *Asset Retirement Obligations*

This standard requires that the fair value of the disposal cost of an asset be capitalized as part of property, plant and equipment when the asset initially is constructed. In subsequent periods, the Company then is required to recognize "interest" on the liability and adjust the carrying value of the asset and liability for changes in estimates of the amount or timing of underlying future cash flows. Upon initial implementation, this new standard will require the Company to restate the value of property, plant and equipment for its mining and oil and gas assets and the related liability, but will not have an impact on disclosure related to its decommissioned Elliot Lake mine-site.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Some of the disclosures included in the 2002 annual report respecting production, cash costs, expenses and development schedules represent forward-looking statements. Such statements are based on assumptions and estimates related to future market conditions. While management reviews the reasonableness of such assumptions and estimates, unusual and unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from projections.

Five Year Review

		2002	2001	2000	1999	1998
Earnings	Revenue	**38.0**	32.0	39.8	20.5	52.4
(millions of dollars)	Operating and exploration costs	**25.8**	20.7	21.4	12.6	43.4
	Royalties and provincial capital taxes	**3.8**	2.1	2.1	0.8	—
	Settlement of Oceanic royalty dispute	—	—	—	12.9	—
	Gain on sale of White Rose oil field	—	—	—	(7.7)	—
	Writedown of Greek oil property	—	—	—	—	11.5
	Decrease in oil field decommissioning provision	—	—	—	(13.9)	—
	General corporate expenses	**2.3**	2.0	2.3	3.0	3.5
	Interest expense	**3.2**	4.4	6.0	0.8	—
	Investment income	**0.1**	0.4	1.4	0.7	2.7
	Earnings (loss) before income taxes	**3.0**	3.2	9.4	12.7	(3.3)
	Income tax expense (recovery)	**(0.1)**	(1.5)	0.4	0.4	—
	Net earnings (loss)	**3.1**	4.7	9.0	12.3	(3.3)
Financial Position	Assets					
(millions of dollars)	Cash, marketable securities, receivables, supplies and prepaids	**14.9**	16.1	22.4	54.6	66.8
	Inventories	**24.0**	27.3	21.6	20.1	24.1
	Property, plant and equipment (net)	**131.5**	130.0	122.4	125.5	116.9
		170.4	173.4	166.4	200.2	207.8
	Liabilities					
	Bank indebtedness	**3.8**	1.9	—	—	—
	Accounts payable and current taxes	**6.3**	8.4	7.7	40.5	46.5
	Long-term debt, including current portion	**54.3**	63.7	62.7	68.1	56.4
	Provision for decommissioning and reclamation	**7.0**	7.1	6.9	7.5	33.7
	Provision for post employment benefits	**10.5**	11.0	11.5	11.9	12.5
	Future income taxes	**0.3**	1.0	2.8	6.4	5.3
		82.2	93.0	91.6	134.4	154.4
	Equity					
	Capital stock, warrants and contributed surplus	**6.6**	1.8	0.9	0.9	0.9
	Retained earnings	**81.6**	78.6	73.9	64.9	52.5
		88.2	80.4	74.8	65.8	53.4
		170.4	173.4	166.4	200.2	207.8
Cash Flow	Cash generated (utilized) by:					
(millions of dollars)	Operating activities	**11.1**	4.2	(7.6)	(7.7)	2.4
	Financing activities	**(2.9)**	0.6	(9.2)	11.8	10.4
	Investing activities	**(9.4)**	(8.2)	(0.8)	(4.8)	(25.3)
	Decrease in cash and short-term deposits	**(1.2)**	(3.4)	(17.6)	(0.7)	(12.5)
Statistics						
Per Common Share	Net earnings (loss) per Common Share	**0.18**	0.30	0.57	0.77	(0.21)
(dollars)	Net earnings (loss) per share - diluted	**0.18**	0.29	0.56	0.75	(0.21)
Production Data	Uranium					
(Denison share - Thousands)	U_3O_8 produced (pounds)	**1,372**	1,484	2,086	673	—
	Oil & Gas					
	Crude oil and condensate (bbls)	**120**	35	—	—	1,381
	Natural gas (mcf)	**516**	63	—	—	108
	Sulphur (tonnes)	—	—	—	—	23

Note 1: The financial statement numbers included in the Five Year Review have been restated to reflect all changes in accounting policies and financial statement presentation during the five-year period ended December 31, 2002.

Corporate Information

BOARD OF DIRECTORS

James S. Blair
Calgary, Alberta

Ronald S. Clark
Regina, Saskatchewan

E. Peter Farmer
Toronto, Ontario

Gregory S. Fletcher
Calgary, Alberta

Patrick W. E. Hodgson
Toronto, Ontario

Paul F. Little
Calgary, Alberta

E. Bruce McConkey
Collingwood, Ontario

Alfred Powis
Toronto, Ontario

OFFICERS

E. Bruce McConkey
Chairman

E. Peter Farmer
President and Chief
Executive Officer

T. E. Craig Bamford
Vice President, Finance and
Chief Financial Officer

Donald C. Campbell
Vice President, Marketing
and Special Projects

Donna J. Gallant
Counsel and Secretary

OFFICES

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Calgary

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Elliot Lake

Denison Environmental Services
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Fax: 705-848-5814

Website
www.denisonenvironmental.com

ADDITIONAL INFORMATION

Further information about Denison is available by contacting the Corporate Secretary at the head office listed above or by email to dgallant@denisonenergy.com

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: DEN

TRANSFER AGENT

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Toll Free: 1-800-564-6253

AUDITORS

PricewaterhouseCoopers LLP
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Toronto, Ontario M5K 1G8

ABBREVIATIONS

bbl	barrel
boe	barrel of oil equivalent *
boepd	boe per day
CO_2	carbon dioxide
GWe	gigawatt electric (million kW)
kW	kilowatt
mcf	thousand cubic feet
mbbl	thousand barrels
U_3O_8	triuranium octoxide

* 6 mcf gas equivalent to 1 boe